

Message Text

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71

ACTION EA-14

INFO OCT-01 EUR-25 ADP-00 INT-08 SCEM-02 SAJ-01 AID-20

CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

NSC-10 SS-15 STR-08 CEA-02 DODE-00 PM-07 H-03 L-03

PA-03 PRS-01 USIA-15 DOTE-00 SCI-06 CEQ-02 EPA-04

FPC-01 RSR-01 /205 W

----- 003056

R 190910Z JUL 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 5504

INFO AMCONSUL HONG KONG

AMEMBASSY MOSCOW

USLO PEKING

CINCPAC

C O N F I D E N T I A L TOKYO 9275

E.O. 11652: GDS

TAGS: ENRG, JA, US, UR

SUBJ: JAPANESE-SOVIET MEMORANDUM ON YAKUTSK GAS
DEVELOPMENT

REF: A. TOKYO 8481; B. TOKYO 8905

SUMMARY: JAPAN AND SOVIET UNION CONCLUDED WEEK
AND HALF OF NEGOTIATIONS ON YAKUTSK NATURAL GAS
PROJECT ON JULY 17. JAPANESE CREDIT FOR EXPLORATION PROJECT IN
YAKUTSK AREA WAS PRINCIPAL SUBJECT OF DISCUSSION;
HOWEVER, TWO SIDES FAILED TO CONCLUDE SPECIFIC CREDIT
AGREEMENT. PRESIDENT OF JAPANESE EXIMBANK SCHEDULED
VISIT MOSCOW IN MID-AUGUST TO TRY TO REACH AGREEMENT
ON CREDIT TERMS. SOVIET DEPUTY MINISTER OSIPOV TOLD
JAPANESE HE PLANS MEET WITH EL PASO GAS OFFICIALS IN
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HOUSTON IN LATE AUGUST OR EARLY SEPTEMBER FOR SIMILAR

TALKS ON PROJECT. END SUMMARY.

1. JAPAN-SOVIET MEMORANDUM ON DEVELOPMENT OF YAKUTSK NATURAL GAS RESERVES WAS ISSUED JULY 17 ON RESULTS OF BILATERAL TALKS WHICH BEGAN JULY 6. FOLLOWING ARE HIGHLIGHTS OF MEMORANDUM'S SIX ARTICLES:

A. BOTH DELEGATIONS REAFFIRMED THE DESIRABILITY OF FINANCING THE PIPELINE, LNG PLANT, AND SUPPLY TERMINAL FOR THE YAKUTSK PROJECT BY LONG TERM BANK CREDITS FROM JAPAN AND THE US.

B. PRELIMINARILY, NECESSARY CREDITS FOR PROJECT ARE ESTIMATED TO BE \$3 BILLION. HOWEVER, THE FINAL CREDIT FIGURE WILL DEPEND ON ENGINEERING AND ECONOMIC FACTORS, AS WELL AS CHOICE OF ROUTE. THE SIZE OF THE CREDITS TO BE SUPPLIED BY THE US AND JAPAN WILL BE IN PROPORTION TO THE AMOUNT OF GAS TO BE PURCHASED BY EACH. IN ADDITION, THE SOVIET SIDE REQUESTED THAT \$400 MILLION CREDIT FOR PURCHASE OF CONSUMER GOODS BE EXTENDED (HLAF FROM JAPAN - HALF FROM US). REPAYMENT OF CREDITS WILL BE MADE BY EXPORTS OF GAS.

C. NATURAL GAS WILL BE SUPPLIED OVER A TWENTY YEAR PERIOD AT RATE OF 20 BILLION CUBIC METERS OR MORE PER YEAR. \$120-\$150 MILLION IN CREDITS WILL BE NECESSARY TO FINANCE AN EXPLORATION PROJECT. JAPAN IS READY TO EXTEND HALF OF THE CREDITS FOR EXPLORATION WHEN THE SIZE OF THE CREDITS IS FINALLY DETERMINED. REGARDLESS OF THE RESULTS OF THE SURVEY, CREDITS GRANTED FOR PURCHASES OF SURVEYING EQUIPMENT "WILL BE REPAYED IN ACCORDANCE WITH PREVIOUSLY AGREED CONDITIONS."

D. THE SOVIET UNION WILL RESPOND LATER TO JAPANESE REQUESTS FOR INTERIM PROGRESS REPORTS ON EXPLORATION AND FOR PERMISSION TO SEND SURVEY TEAMS TO SITE TO INSPECT EXPLORATION ACTIVITIES.

E. BOTH DELEGATIONS AGREED TO ESTABLISH THREE BILATERAL WORKING GROUPS DEALING WITH GEOLOGICAL EXPLORATION, CONFIDENTIAL

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PIPELINE CONSTRUCTION, AND CREDIT RESPECTIVELY.

F. FURTHER MEETINGS WILL BE HELD TO PREPARE FOR DRAFTING OF BASIC AGREEMENT ON YAKUTSK PROJECT.

2. MANAGING DIRECTOR OF TOKYO GAS, TAKEO MURAKAMI, TOLD EMBOFF JULY 18 THAT CREDITS FOR EXPLORATION PROJECT HAD PROVED TO BE MOST DIFFICULT QUESTION DURING TALKS.

DESPITE FACT THAT SOVIETS HAD ACCEPTED GENERAL PRINCIPLE OF TIED LOANS FOR EXPLORATION PROJECT AND HAD SUBMITTED ROUGH LIST OF WHAT EQUIPMENT WOULD BE REQUIRED FOR PROJECT, GOJ HAD BEEN UNWILLING TO MAKE FIRM COMMITMENT TO EXTEND \$60-\$75 MILLION IN CREDITS (SEE REFTEL B). MURAKAMI SAID THAT IN HIS OPINION THIS GOJ HESITATION DUE TO BELIEF THAT TANAKA-BREZHNEV SUMMIT SHOULD PRECEDE ANY FORMAL COMMITMENT ON CREDITS.

3. MURAKAMI THEN SAID THAT PRESIDENT OF JAPAN EXIMBANK, SATOSHI SUMITA, PLANNED TO GO TO MOSCOW ABOUT MID-AUGUST FOR DETAILED TALKS WITH SOVIETS. DURING DISCUSSION WITH EMBOFF, MURAKAMI INTERRUPTED BY CALL FROM HIROSHI ANZAI, BOARD CHAIRMAN OF TOKYO GAS, WHO TOLD MURAKAMI HE HAD JUST SPOKEN TO FINANCE MINISTER AICHI. AICHI HAD ASSURED ANZAI THAT HE WOULD TAKE ALL STEPS TO ENSURE THE SUCCESS OF SUMITA'S MISSION TO MOSCOW TO NEGOTIATE DETAILS OF CREDIT ARRANGEMENTS.

4. IN RESPONSE TO QUESTION REGARDING SOVIET WILLINGNESS TO REPAY EXPLORATION CREDITS IF GAS NOT FOUND IN COMMERCIAL QUANTITIES, MURAKAMI SAID THIS VERY FRUSTRATING PROBLEM. DURING SESSIONS, SOVIETS HAD SAID CLEARLY THAT THEY WOULD REPAY THESE CREDITS IF EXPLORATION NOT SUCCESSFUL; HOWEVER, THEY FLATLY REFUSED TO DISCUSS SPECIFICS OF REPAYMENT IN THIS EVENT. MURAKAMI SAID SOVIETS SEEMED TO FEEL THAT DISCUSSION OF SPECIFICS WOULD IMPLY THAT THEY FELT THERE WAS SOME UNCERTAINTY ABOUT ADEQUACY OF RESERVES.

5. AS RESULT OF FAILURE OF DELEGATIONS TO AGREE TO SPECIFIC ARRANGEMENTS AND TERMS OF JAPANESE FINANCING OF EXPLORATION PROJECT (SEE REF B), MURAKAMI SAID THAT CONFIDENTIAL

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COMMENCEMENT OF EXPLORATION BY OCTOBER 1973 NOT REALISTIC POSSIBILITY AT THIS POINT. HE SAID HE WOULD "CONSIDER IT LUCKY" IF SURVEY COULD BE STARTED IN OCTOBER 1974. MURAKAMI THEN AGAIN STRESSED NEED FOR USG TO DO ALL POSSIBLE TO CLARIFY WHICH US FIRMS WILL BE INVOLVED IN YAKUTSK PROJECT. IT VERY DIFFICULT FOR JAPANESE TO AVOID SOVIET PENCHANT FOR PLAYING ONE SIDE OFF AGAINST THE OTHER WHEN IT NOT CLEARLY ESTABLISHED WHICH US FIRMS WOULD HANDLE PROJECT.

6. IN PRESS CONFERENCE AT CLOSE OF JAPAN-SOVIET SESSIONS, ANZAI NOTED THAT OSIPOV AND OTHER SOVIET OFFICIALS PLAN TO GO TO HOUSTON IN LATE AUGUST OR EARLY SEPT. FOR TALKS WITH BOYD, CHAIRMAN OF EL PASO GAS. MURAKAMI DID NOT KNOW IF ANY CALLS ON USG OFFICIALS WOULD BE

SCHEDULED.

7. TEXT OF JOINT MEMORANDUM FOLLOWS BY AIRGRAM.
INGERSOLL

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, NATURAL GAS, CREDIT AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: willialc
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973TOKYO09275
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS INGERSOLL
Errors: N/A
Film Number: n/a
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730722/aaaaaprvtel
Line Count: 173
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 73 A. TOKYO 8481; B. TOKYO 8905
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 31 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31-Jul-2001 by kellew0>; APPROVED <23-Aug-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: JAPANESE-SOVIET MEMORANDUM ON YAKUTSK GAS DEVELOPMENT
TAGS: ENRG, JA, US, UR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005